

Economic and Fiscal Update

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MINISTER OF FINANCE**

Date : December 3, 2008

Introduction

Mr. Speaker, given the severity of the global financial and economic situation we are now facing, with the unanimous consent of the House, I would like to deliver an extended statement regarding the economic and fiscal update which I tabled earlier.

Over the last several months, global financial markets have experienced an unprecedented downturn that is contributing to a global economic slowdown. The world has not faced a financial and economic crisis of this magnitude in a generation. The effect of the slowdown is widespread. It is affecting the economy. It is affecting families, retirees and individuals. It is affecting businesses. And it is affecting government.

In its November outlook, the Organisation for Economic Co-operation and Development said "Many OECD economies are in or are on the verge of a protracted recession of a magnitude not experienced since the early 1980's." It is anticipated that global economies will exhibit little sign of recovery from the current instability until 2010.

New Brunswick is not immune from these challenges. It is already impacting our economy. It is impacting our people, with investment and retirement income under strain and income growth and employment opportunities expected to weaken. It is impacting on New Brunswick businesses and affecting important business decisions. It is also affecting government, with implications on revenues and spending of the province. Unfortunately, the situation will likely get worse before it gets better.

The government was elected to provide leadership on behalf of the people of New Brunswick. In the face of these challenges, that is exactly what the government intends to do.

In this context, I would like to provide a 2008-2009 Economic and Fiscal Update to New Brunswickers.

Overview of Economy

Mr. Speaker, the global economic slowdown and financial turmoil will have significant implications on the province. Our economy is driven by international and interprovincial export of goods and services and capital investment. Developments affecting the United States economy, world commodity prices and global financial markets are having a direct impact on the province, its people and its businesses.

The United States economy is the destination of approximately 90 per cent of our foreign exports of goods. The American economy has weakened considerably with a recession now anticipated, the only issue being its depth and length. This will hamper exports from the province. The collapse of the United States housing market is already impacting New Brunswick producers of residential building products.

Mr. Speaker, global developments have also contributed to significant declines in world commodity prices, especially for New Brunswick mineral, manufacturing and forest products. While providing welcome relief to business and consumers, declining prices for oil and gasoline products will also serve to lower export values. Slowing world markets have already led to downtime at provincial mining and manufacturing operations, affecting businesses and individuals alike.

In terms of fallout from turmoil in the world financial system, a number of other challenges will face the province's economy and constrain economic growth. Access to and the cost of capital is a major challenge that will have direct or indirect impacts on investment, employment, income and spending.

Furthermore Mr. Speaker, investment and retirement income have been impacted by the market collapse. And the funding status of private and public pension plans is under strain, affecting retirees, individuals, businesses and governments.

This is the economic environment that we are now living within, and that will affect us all over the coming months. While New Brunswick's economic fundamentals – and diversified economy – have contributed to a solid economic performance so far in 2008, the reality is we face challenging times ahead.

Mr. Speaker, this is exactly why the government must and will provide leadership. It is our responsibility to create an environment to help grow business and consumer confidence in our economy, and to encourage continued spending, investment and job creation in the province. These are the most positive and responsible actions our government can take in this time of global crisis. Mr. Speaker, these actions and more will be our focus over the coming months.

Economic Update 2008

For 2008, the New Brunswick economy has performed according to expectation for the first three-quarters of the year, and the province's major energy capital projects are proceeding as planned.

Year-to-date, employment is up by approximately 4,000 net new jobs, average weekly earnings have increased 3.4 per cent and retail sales have increased 5.5 per cent. These are positive results.

However, Mr. Speaker, the weakened global economy will mean lower economic growth for the latter part of 2008. In our budget last March, the Department of Finance projected economic growth for 2008 at 1.8 per cent. The Department now anticipates real growth in New Brunswick of approximately 1.0 per cent for the year, comparable to the current private sector consensus estimate of 1.2 per cent.

Economic Outlook 2009

Mr. Speaker, while our economy will grow in 2008, it is anticipated that the New Brunswick economy will experience marginal, if any, growth in 2009, with the strong possibility of contraction. The fallout from turmoil in world financial markets, the length and depth of the United States recession and the winding down of major energy construction projects will all affect our economy. This is the economic reality we are now facing.

The Department of Finance will continue to carefully monitor global developments affecting the economy over the coming months and will provide a detailed update as part of our 2009-2010 Budget.

Fiscal Update 2008-2009

I would now like to provide a fiscal update for 2008-2009.

Developments in global financial markets and the economic slowdown are having a direct impact on the province's fiscal situation, and the government now expects a deficit in the current fiscal year. The deficit is largely attributable to spending pressures facing the province this year.

Mr. Speaker, the global financial market meltdown is having a significant impact on the value of our public sector pension funds, which are down considerably year-to-date. As a result, this has added an estimated \$133 million to the province's pension expense. This is a required accounting entry that government must make annually depending on the returns of its public sector pension funds. If market returns improve over the remainder of the year, our pension expense will fall. However, if they worsen, our pension expense will increase. Despite this, Mr. Speaker, I want to reassure employees of the New Brunswick public service that their pensions are safe and well-managed and will be there when they retire.

This government also recognizes that individual and group retirement plans have experienced significant market losses with the current crisis. This is creating uncertainty for businesses, retirees, workers, and their families. New Brunswick will be working with other provinces and the federal government on this important issue.

Mr. Speaker, as all New Brunswickers are aware, the province has also been impacted by severe flooding and energy costs. Disaster financial assistance, largely as a result of the spring flood, will cost \$29 million. Higher fuel costs have resulted in approximately \$10 million in spending pressures across a number of departments. These are costs beyond the province's direct control. Debt service costs are also projected to be up \$14 million from budget.

The Department of Health is estimating a \$40 million over-expenditure largely as a result of Regional Health Authority deficits, while the Department of Social Development is projecting a \$19 million over-expenditure mainly as a result of additional demands for essential long-term care and children services.

Additional investments of \$17 million in strategic economic development activity are also being undertaken by the Regional Development Corporation to help stimulate the slowing provincial economy.

In total, spending is now anticipated to be \$302 million above budget.

At the same time, revenue remains on track with budget. A significant 50 per cent drop in zinc prices – attributable to global developments – has translated into an estimated \$70 million reduction in metallic minerals tax revenue from budget. This – and other shortfalls – has been offset by anticipated increases in revenues from HST and personal income tax largely related to prior-year adjustments, as well as a one-time increase in tobacco tax revenue due to the settlement of a court challenge.

As a result of all of these developments, Mr. Speaker, the government is now projecting a deficit in the range of \$285 million for 2008-2009, as opposed to the \$19 million surplus projected at budget.

Fiscal Outlook 2009-2010

Mr. Speaker, the implications of global developments on the province's fiscal situation will be even more pronounced as we head into the 2009-2010 Budget. There can be no doubt that the global economic slowdown being felt around the world will limit provincial revenue growth and put additional pressure on spending here in New Brunswick.

Revenue growth will be hampered by the effects of the slowdown on investment, income, business and consumer confidence, and weakened markets for our manufacturing, forest and mining products. Spending pressures will continue to mount, with increased pension expense having a major impact on government spending. As a result, the province is facing a potentially large deficit in 2009-2010.

Stimulating the Economy

Mr. Speaker, while the government cannot manage costs that are beyond its control, it can and must continue to manage its own spending to ensure the absolute best value to taxpayers. The government remains committed to fiscal responsibility.

While we have a number of initiatives and improvements to various programs and services that we would like to implement, now is simply not the appropriate time for widespread program enhancements or new services given the province's fiscal and economic circumstances. As New Brunswickers will do, our government will use a very common sense approach in prioritizing our needs.

Mr. Speaker, it is equally important that we do not undertake measures that will further weaken the economy at a time when it requires strong governance. In the current economic reality, it is imperative that we provide the necessary leadership that will help stimulate spending, investment, jobs and growth that will support New Brunswick businesses and individuals and lead us out of the economic slowdown as soon as possible.

In short Mr. Speaker, the government will use a balanced approach. We have already begun an extensive review of all government programs, in order to ensure they are being delivered in the most cost effective way possible. As a government, we believe it is important that we tighten the belt on government expenditures, and as public officials, we also need to lead by example. Today Mr. Speaker, I am announcing that salaries for all MLAs in this Legislative Assembly will be frozen at their current level for one year.

At the same time as we closely manage government expenditures, our balanced approach will clearly be evident as we inject hundreds of millions of dollars into strategic investments. These strategic investments will serve several purposes. They will continue to enhance our key infrastructure across the province; they will create an environment to sustain as much short-term economic activity as possible during this difficult period; and, they will position New Brunswick to become a magnet for business investment and economic activity as soon as the economy returns to some level of normality. Following such a balanced approach is the responsible way to help New Brunswick succeed through this economic slowdown.

Mr. Speaker, today the government begins to lay out a bold fiscal stimulus package that provides the foundation for recovery and growth. These initial steps that I will detail in a moment will be built upon over the course of the next few months leading into our 2009-2010 Budget in March.

Our Government remains committed to the principle of balanced budgets and responsible fiscal management, but during this global crisis, we must also be committed to investing in the people and businesses of New Brunswick and their future. We are prepared to accept short-term deficits and increases in net debt to ensure our economy recovers and prospers as fully as possible. That said, Mr. Speaker, I want to assure New Brunswickers that we are doing this to lead the province through this difficult economic period and position New Brunswick for a return to economic growth as soon as possible. In that regard, it is our firm objective to avoid on-going and unsustainable deficits and increases in net debt. In fact, Mr. Speaker, it is our full intention – and it is government policy – to return our province to surpluses as soon as possible.

Today, I am pleased to outline some initial measures our government will undertake to stimulate our economy and help it recover as quickly as possible from the economic slowdown:

- **More efficient and affordable public services.** As a government, we are committed to restraining government expenditures but doing so in a responsible fashion. In this regard, we are undertaking a review of our various programs and services to ensure public resources are invested where they are most needed and in a cost-effective and efficient manner. This includes the shared-services review announced in the 2008-2009 Budget as well as a broader-based review encompassing all government programs and services. Attrition will be an important strategy in realizing efficiencies and meeting our objectives in the public service.
- **Investing in strategic infrastructure.** Mr. Speaker, over the past year, we have witnessed significant capital and infrastructure investments take place across New Brunswick. The province's 2008-2009 Capital Budget of \$486 million was the largest in our province's history, excluding the one-time payment for completion of the Trans-Canada Highway project in 2007-2008. These investments are helping stimulate economic activity throughout New Brunswick in the current year.

Building on this momentum, next week I will introduce New Brunswick's 2009-2010 Capital Budget. At that time, I will provide the details of the first year of a two-year capital spending plan that will exceed \$1.2 billion, including the largest capital investment in the province's history for 2009-2010. These hundreds of millions of dollars in investments will directly stimulate job creation, economic growth and support our self-sufficiency agenda with strategic investments in roads and transportation infrastructure, in K-12 and post-secondary education and other priorities.

As well, our government will continue to work aggressively with the private sector and other levels of government in encouraging further strategic investments in New Brunswick's infrastructure and elsewhere in the New Brunswick economy. Mr. Speaker, our government is determined to provide the necessary economic stimulus to maintain considerable economic activity in New Brunswick during this difficult economic period, and further enhance our physical infrastructure for the benefit of all New Brunswickers.

- **Access to capital.** Investment is a key component of our economy that generates jobs, income and enhances business competitiveness. Government will work to ensure that small, medium and large businesses which have solid business plans have access to capital. As with all government expenditures, we want to ensure that these dollars are utilized as effectively as possible. That is why we'll look to assist those companies which are most deserving of any financial assistance that is available.
- **Lowering the tax burden.** The government has been clear in its objective to put more money in the hands of people and business to generate wealth, investment and economic activity leading to a more self-sufficient New Brunswick. Tax reform is about improving the province's competitiveness. It is also about creating the kind of economic environment where the sons and daughters of so many New Brunswickers can return here, find meaningful employment opportunities, and live and raise their families in this special place we call home.

Mr. Speaker, it is our intention to begin moving forward on this agenda in the coming weeks, with the tabling of both the Select Committee report on tax restructuring and the government's initial response to it. The government remains committed to reforming New Brunswick's tax system over a four-year period. We are fully committed to lowering personal and corporate taxes in New Brunswick and Mr. Speaker, we will do so.

Furthermore, the government has already assured that it will protect New Brunswick consumers and businesses from rapidly escalating energy costs. The government confirms the maximum average electric power rate increase for NB Power will not surpass three percent for each of the next three years through 2010. This will allow businesses to plan their energy costs with greater certainty, protect consumers and also maintain our competitiveness with neighboring provinces.

Mr. Speaker, New Brunswick is among the first jurisdictions in Canada to address this very serious economic and financial situation by launching a bold and comprehensive plan to stimulate economic activity in the coming months and years. Today's action plan to stimulate the economy is only a first step in the leadership we will provide to help New Brunswick recover, grow and prosper. Next week's capital budget will outline hundreds of millions of dollars in strategic infrastructure investments to support the economy. Government will announce further action in our 2009-2010 Budget and we will continue to work with our federal, provincial and territorial counterparts to combat the effects of global economic and financial developments.

These are indeed challenging times for our country and for our province. However, Mr. Speaker, I have great confidence in New Brunswickers' ability to be innovative, to be resilient and to be successful as we weather this storm together. I remain optimistic that when the storm has passed New Brunswick will be well positioned for an economic recovery that will fuel the transformation of our province to self-sufficiency.

Thank you, Mr. Speaker.